



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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ASSISTANT SECRETARY FOR FINANCIAL MARKETS ANTHONY W. RYAN MAY 2008 QUARTERLY REFUNDING STATEMENT

Washington, DC—We are offering \$21.0 billion of Treasury securities to refund approximately \$74.0 billion of privately held securities maturing on May 15 and to pay down approximately \$53.0 billion. The securities are:

- A new 10-year note in the amount of \$15.0 billion, maturing May 15, 2018;
- A 29 ³/₄ -year bond in the amount of \$6.0 billion, maturing February 15, 2038

These securities will be auctioned on a yield basis at 1:00 p.m. EDT on Wednesday, May 7, and Thursday, May 8, respectively. Both of these auctions will settle on Thursday, May 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the June 10-year note reopening and the July 10-year TIPS offering and 20-year TIPS reopening.

In addition, Treasury will commence issuing a 52-week bill, with the initial announcement on Thursday, May 29 at 11:00 a.m. EDT, the initial auction on Tuesday, June 3 at 1:00 p.m. EDT, and settlement on Thursday, June 5. Treasury will auction this security once every four weeks, concurrently with the 4-week bill, with settlement two days later on Thursday.

Treasury also expects to issue cash management bills in May, June, August, and September. Some of these cash management bills may be longer-dated. The issuance of longer-dated cash management bills is in response to stimulus program payments and other potential seasonal fluctuations in cash balances.

Changes in Borrowing Needs and Treasury's Response

Over the last several months, changes in economic conditions, financial markets, and monetary and fiscal policy have impacted Treasury's marketable borrowing needs. Financial market strains have impacted the real economy, and the nation has experienced lower economic growth, lower receipts, and increased outlays.

As a result, projected marketable borrowing requirements have increased significantly over the last three months, driven by changes in the deficit estimate, a decline in SLGS issuance, and redemption and outright sale activity undertaken by the Federal Reserve in its System Open Market Account (SOMA).

Treasury has responded to the increase in marketable borrowing requirements in its traditional manner and consistent with our comments in the February 2008 quarterly refunding statements. Over the past several months, as borrowing needs have accelerated rapidly, the Treasury has significantly increased issuance sizes of regular bills, the frequency, terms, and issuance sizes of cash management bills, and the issuance sizes of shorter and intermediate-term nominal note offerings.

Given issuance sizes of securities on our current offerings calendar, future borrowing needs for the remainder of fiscal year 2008, as well as deficit projections for fiscal year 2009, we believe it prudent to add an additional maturity point at this time. Treasury will continue to monitor our projected fiscal needs and make adjustments as necessary.

Auction Calendar Addition with Issuance of the 52-week bill

Treasury will commence issuing a 52-week bill, with the initial auction on Tuesday, June 3 at 1:00 p.m. EDT and settlement on Thursday, June 5. The announcement date for this initial bill will be Thursday, May 29, 2008 at 11:00 a.m. EDT.

In the future, Treasury will announce the size of 52-week bills once every four weeks on the Thursday prior to auction in conjunction with the announcement of sizes of the 13-week and 26-week bills. This security will be auctioned once every four weeks, concurrently with the 4-week bill on Tuesdays at 1:00 p.m. Settlement for the 52-week bill will be, as with all other bills, on Thursday.

The addition of the 52-week bill should help reduce Treasury's reliance on cash management bill issuance.

Financing Needs in Fiscal Year 2008

We anticipate continued increases in bill and nominal coupon issuance over the remainder of fiscal year 2008 to address increases in net marketable borrowing needs associated with the fiscal outlook.

Financing considerations related to the Federal Reserve (SOMA)

While the decisions of the Federal Reserve are independent of the Department, Treasury may also need to alter weekly bill issuance sizes or to issue additional cash management bills to offset cash shortfalls arising from Federal Reserve redemptions and open market sales of Treasury securities. Treasury will adjust such issuance as transparently as possible.

Introduction of the New Treasury Auction System

On April 7, 2008, as part of its Cash-Debt management modernization initiative, Treasury introduced its New Treasury Automated Auction Processing System (NTAAPS). This enhanced auction system significantly upgrades Treasury's auction process by improving system flexibility, reliability, security, analytics and transparency.

Notable improvements include the following:

- Bidders receive immediate system feedback regarding receipt of their bids.
- Award notices are available immediately after auction close. Previously, it took upwards of 20 minutes for successful bidders to receive award notices.
- Treasury publishes preliminary results of the offering amount awarded to non-competitive tenders 15 minutes before auction close.
- An enhanced user experience to provide ease in data entry.
- Robust fail-safes in case of contingency situations.

- \$100 minimum denominations of marketable debt instead of \$1000 to broaden access to all market participants.

Treasury Repo Market and Private Sector Initiatives

Treasury continues to encourage efforts by the private sector – notably initiatives taken by members of the Securities Industry and Financial Markets Association (SIFMA) and the Treasury Markets Practices Group (TMPG) - to address issues related to the Treasury financing market. The current low interest rate environment potentially leads to an increased likelihood of chronic fails in the Treasury repo market. Such activity is not favorable for Treasury market liquidity.

Treasury strongly believes that the private sector, given its interest in maintaining robust financing markets, should implement initiatives discussed over the past three months in a proactive manner.

In addition, private sector participants should take additional steps from a monitoring and supervisory perspective to ensure that fails do not reach levels that impact financing markets.

Treasury will continue to routinely monitor the Treasury financing markets, and encourage additional steps when necessary.

Please send comments and suggestions on these subjects or others relating to Treasury debt management to debt.management@do.treas.gov.

The next quarterly refunding announcement will take place on Wednesday, July 30, 2008.